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South Carolina Electric and Gas Company
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Re: Report of the South Carolina Office of Regulatory Staff's Examination of South Carolina Electric and Gas Company's Monitoring Report under the Natural Gas Rate Stabilization Act for the Twelve-Month Period Ending March 31, 2008

Docket No. 2006-157-G

Gentlemen:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2007), ("RSA" or "The Act"), conducted an examination of South Carolina Electric and Gas Company's ("SCE&G" or "the Company") Monitoring Report for the twelve-month period ended March 31, 2008. The examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2008 Quarterly Monitoring Report a rate of return and return on common equity of 7.72% and 9.00%, respectively. The Company's calculation of additional revenue required to restore return on common equity to the 10.25% level authorized in

its most recent rate case (Order No. 2005-619 issued in Docket No. 2005-113-G on October 31, 2005) was an additional \$4,735,547.

Based upon its examination, ORS is proposing certain adjustments (see Schedule 2) to bring the Company's Monitoring Report into conformance with Section 58-5-430 and Section 58-5-440 of the Act.

The Office of Regulatory Staff calculated the Company's rate of return and return on common equity as 7.81% and 9.16%, respectively, after ORS accounting and pro forma adjustments. Therefore, in accordance with the guidelines of the Act, ORS agrees that the Company is entitled to an increase in rates sufficient to achieve a return on common equity equaling 10.25% as authorized in Order No. 2006-553. Accordingly, based on ORS' examination of the Company's filing, ORS recommends that the Company's request be reduced by \$1,013,823 resulting in an increase to revenues of \$3,721,724. After the proposed increase, the Company will have the opportunity to earn a rate of return and return on common equity of 8.40% and 10.25%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	Approved Return on Equity
11-30-1989	89-245-G	\$11,333,163	\$10,139,314	12.75%
10-31-2005	2005-113-G	\$28,482,731	\$22,857,839	10.25%
09-27-2006	2006-157-G	\$18,175,727	\$17,437,394	10.25%
10-12-2007	2006-157-G	\$6,868,824	\$4,555,622	10.25%

The following is a description of Schedules prepared by ORS as a result of its review of the Company's filing:

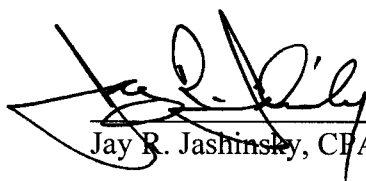
Schedule 1 presents the Company's operating experience, rate base and rates of return for the year ended March 31, 2008, and the accounting and pro forma adjustments which ORS has determined are necessary to normalize the Company's operations both before and after the effect of the requested increase. Utilizing the per book rate base of \$398,499,218 and income of \$30,769,737, a rate of return was calculated on per book operations of 7.72% with a corresponding return on common equity of 9.00%. ORS accounting and pro forma adjustments increased Net Income for Return to \$30,920,963 and decreased rate base to \$395,894,498. The return on common equity computed by ORS after accounting and pro forma adjustments was 9.16%. After the adjustment for the proposed margin increase of \$3,721,724, Net Income for Return increased to \$33,242,470. The rate of return on rate base computed by ORS after the adjustment for the proposed increase is 8.40%. The return on common equity is 10.25%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

Schedule 3 presents the calculation of the weighted average cost of capital used by the Company in calculating its return on common equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long term debt, preferred stock and common equity according to the respective ratios as computed using the Company's capital structure as of March 31, 2008. The amount of total income for return necessary to cover an embedded cost rate of 6.21% on long term debt is computed to be \$10,751,042. The amount of total income for return necessary to cover an embedded cost rate of 6.42% on preferred stock is computed to be \$574,411. The remainder of the total income for return of \$19,595,510 is income to common equity. Such remainder produced a return of 9.16% on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments, but prior to the requested increase, is 7.81%. Such overall cost equals the rate of return on rate base shown on Schedule 1.

After the proposed increase of \$3,721,724 income available to common equity increases to \$21,917,017 and return on common equity increases to 10.25%. Overall cost of capital as detailed in Schedule 3 equals 8.40%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,


Jay R. Jashinsky, CFA

- and -


Shannon Bowyer Hudson, Esquire

South Carolina Electric & Gas Company
Operating Experience - Total Gas
For the Test Year Ended March 31, 2008

<u>Description</u>	<u>Per Regulatory Books</u>	<u>ORS Accounting & Pro Forma Adjustments</u>	<u>As Adjusted</u>	<u>Proposed Increase</u>	<u>Total After Proposed Increase</u>
<u>Operating Revenues</u>	\$ 537,929,459	\$ 3,653,837 (A)	\$ 541,583,296	\$ 3,721,724 (N)	\$ 545,305,020
<u>Operating Expenses:</u>					
O&M Expenses - Cost of Gas	402,185,419		402,185,419		402,185,419
O&M Expenses - Other	59,970,561	(1,275,889) (B)	58,694,672		58,694,672
Dep. & Amort. Expenses	19,219,718	2,756,986 (C)	21,976,704		21,976,704
Taxes Other Than Income	13,937,097	1,887,634 (D)	15,824,731	18,676 (O)	15,843,407
State Income Taxes	1,442,395	17,797 (E)	1,460,192	185,152 (P)	1,645,344
Federal Income Taxes	10,727,441	118,355 (F)	10,845,796	1,231,264 (Q)	12,077,060
<u>Total Operating Expenses</u>	507,482,631	3,504,883	510,987,514	1,435,092	512,422,606
<u>Total Operating Income</u>	30,446,828	148,954	30,595,782	2,286,632	32,882,414
Customer Growth	464,405	2,272 (G)	466,677	34,875 (R)	501,552
Interest on Customer Deposits	(141,496)	-	(141,496)		(141,496)
<u>Net Income for Return</u>	30,769,737	151,226	30,920,963	2,321,507	33,242,470
<u>Rate Base:</u>					
Gross Plant in Service	693,074,310	(56,044) (H)	693,018,266		693,018,266
Reserve for Depreciation	(280,773,941)	(2,603,208) (I)	(283,377,149)		(283,377,149)
Net Plant in Service	412,300,369	(2,659,252)	409,641,117		409,641,117
Construction Work in Process	12,665,706	(269,636) (J)	12,396,070		12,396,070
Accum. Deferred Income Taxes	(64,301,035)		(64,301,035)		(64,301,035)
Environmental Costs	966,058	512,421 (K)	1,478,479		1,478,479
OPEB's	(10,586,204)	(28,767) (L)	(10,614,971)		(10,614,971)
Reg. Asset for Unrcvrd PAP	1,052,031		1,052,031		1,052,031
Injuries & Damages	(483,771)		(483,771)		(483,771)
Materials & Supplies	43,434,780		43,434,780		43,434,780
Total Working Capital	7,496,320	(159,486) (M)	7,336,834		7,336,834
Prepayments	9,917,023		9,917,023		9,917,023
Average Tax Accruals	(6,493,928)		(6,493,928)		(6,493,928)
Customer Deposits	(7,468,131)		(7,468,131)		(7,468,131)
<u>Total Rate Base</u>	398,499,218	(2,604,720)	395,894,498	-	395,894,498
<u>Rate of Return</u>	7.72%		7.81%		8.40%
<u>Return on Common Equity</u>	9.00%		9.16%		10.25%

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2008

<u>Description</u>		<u>Per</u> <u>SCE&G</u>	<u>Per</u> <u>ORS</u>
(A) <u>Operating Revenues</u>			
1	To annualize revenues for lateral transfers from contract rates to published tariff rates	\$ 550,550	\$ 550,550
2	To adjust Franchis Fee - Unbilled Revenue	(949,413)	(949,413)
3	To adjust annualized approved revenue increase for 2007 RSA proceeding	2,832,463	2,832,463
4	To adjust revenues for Urquhart Laterals	1,220,237	1,220,237
	<u>Total Operating Revenues</u>	\$ 3,653,837	\$ 3,653,837
(B) <u>Operating and Maintenance Expense</u>			
5	To annualize wages and benefits	\$ 797,802	\$ 797,802
6	To remove 50% of employee & officer bonuses	(893,140)	(893,140)
7	To adjust employee benefits:		
a.	Annualize pension Income	134,492	217,801
b.	Annualize other post employment benefits	46,586	46,586
8	To remove uncollectible gas cost expense	(436,421)	(436,421)
9	To remove operating expenses related to employee clubs	(60,681)	(60,681)
10	To adjust for Customer Awareness Campaign expenses	189,300	189,300
11	To record adjustment for Pension and Health Care	(29,431)	(29,431)
12	To Annualize Insurance Expense	41,301	41,301
13	ORS proposes to remove non-allowable expenses for ratemaking purposes:		
a.	To remove Legal Fees associated with Environmental Cleanup Cost. ORS treated this amount as an Environmental Clean-up Expense to be amortized.	-	(829,832)
b.	Other non-allowable items	-	(319,174)
	<u>Total Operating and Maintenance Expense</u>	\$ (210,192)	\$ (1,275,889)
(C) <u>Depreciation and Amortization Expense</u>			
14	To remove depreciation expense related to employee clubs	\$ (18,528)	\$ (18,528)
15	To recognize additional CWIP closed to plant	12,409	12,409
16	To annualize depreciation	2,763,105	2,763,105
	<u>Total Depreciation and Amortization Expense</u>	\$ 2,756,986	\$ 2,756,986

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2008

<u>Description</u>		<u>Per</u> <u>SCE&G</u>	<u>Per</u> <u>ORS</u>
(D)	<u>Taxes Other Than Income</u>		
17	To adjust taxes related to lateral Customer Revenue adjustment for tariff rates	\$ 2,763	\$ 2,763
18	To annualize payroll taxes for wages and benefits	56,611	56,611
19	To remove 50% of payroll taxes related to employee & officer bonuses	(56,026)	(56,026)
20	To annualize gross receipts tax for unbilled gas revenue	(4,764)	(4,764)
21	To annualize property tax expense	1,868,714	1,868,714
22	To adjust for taxes for the annualized approved revenue increase from 2007 RSA proceeding	14,213	14,213
23	To adjust taxes related to Urquhart lateral	6,123	6,123
	<u>Total Taxes Other Than Income</u>	<u>\$ 1,887,634</u>	<u>\$ 1,887,634</u>
(E)	<u>State Income Taxes:</u>		
24	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses	\$ (34,978)	\$ 17,797
	<u>Total State Income Taxes:</u>	<u>\$ (34,978)</u>	<u>\$ 17,797</u>
(F)	<u>Federal Income Taxes</u>		
25	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses	\$ (232,603)	\$ 118,355
	<u>Total Federal Income Taxes:</u>	<u>\$ (232,603)</u>	<u>\$ 118,355</u>
(G)	<u>Customer Growth</u>		
26	To adjust customer growth for accounting and pro forma adjustments	\$ -	\$ 2,272
	<u>Total Customer Growth</u>	<u>\$ -</u>	<u>\$ 2,272</u>
(H)	<u>Plant in Service</u>		
27	To remove employee clubs	\$ (498,661)	\$ (498,661)
28	To recognize property retirements	(38,138)	(38,138)
29	To increase plant in service for property additions and plant in service	10,500	10,500
30	To increase plant in service for additional CWIP closed to plant	470,255	470,255
	<u>Total Plant in Service</u>	<u>\$ (56,044)</u>	<u>\$ (56,044)</u>

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2008

<u>Description</u>		<u>Per</u> <u>SCE&G</u>	<u>Per</u> <u>ORS</u>
(I)	<u>Accumulated Depreciation</u>		
31	To remove employee clubs	\$ 134,168	\$ 134,168
32	To recognize property retirements	38,138	38,138
33	To recognize additional CWIP closed to plant	(12,409)	(12,409)
34	To annualize depreciation	<u>(2,763,105)</u>	<u>(2,763,105)</u>
	<u>Total Accumulated Depreciation</u>	<u>\$ (2,603,208)</u>	<u>\$ (2,603,208)</u>
(J)	<u>CWIP</u>		
35	To decrease CWIP for property related to Employee Clubs	\$ (184)	\$ (184)
36	To decrease CWIP for property additions closed to plant in service	(10,500)	(10,500)
37	To decrease CWIP for additional CWIP closed to plant in service	<u>(258,952)</u>	<u>(258,952)</u>
	<u>Total CWIP</u>	<u>\$ (269,636)</u>	<u>\$ (269,636)</u>
(K)	<u>Environmental Cleanup Cost</u>		
38	To increase environmental cost for legal fees associated with litigation of MGP site. ORS treated this amount as an Environmental Clean-up Expense to be amortized.	\$ -	\$ 512,421
	<u>Total Regulatory Assets</u>	<u>\$ -</u>	<u>\$ 512,421</u>
(L)	<u>Deferred Debits/Credits</u>		
39	To annualize other post employment benefits	\$ <u>(28,767)</u>	\$ <u>(28,767)</u>
	<u>Total Deferred Debits/Credits</u>	<u>\$ (28,767)</u>	<u>\$ (28,767)</u>
(M)	<u>Working Capital</u>		
40	To adjust cash working capital	\$ <u>(26,274)</u>	\$ <u>(159,486)</u>
	<u>Total Working Capital</u>	<u>\$ (26,274)</u>	<u>\$ (159,486)</u>
(N)	<u>Operating Revenues for Proposed Increase</u>		
41	To adjust revenues for the proposed increase	\$ <u>4,735,547</u>	\$ <u>3,721,724</u>
	<u>Total for Proposed Increase</u>	<u>\$ 4,735,547</u>	<u>\$ 3,721,724</u>
(O)	<u>Taxes Other Than Income</u>		
42	To adjust gross receipts tax for the proposed increase	\$ <u>23,763</u>	\$ <u>18,676</u>
	<u>Total Taxes Other Than Income</u>	<u>\$ 23,763</u>	<u>\$ 18,676</u>

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2008

<u>Description</u>		<u>Per SCE&G</u>	<u>Per ORS</u>
(P)	State Income Taxes for Proposed Increase		
43	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ 235,589	\$ 185,152
	Total State Taxes for Proposed Increase	<u>\$ 235,589</u>	<u>\$ 185,152</u>
(Q)	Federal Income Tax for Proposed Increase		
44	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ 1,566,674	\$ 1,231,264
	Total Federal Income Tax for Proposed Increase	<u>\$ 1,566,674</u>	<u>\$ 1,231,264</u>
(R)	Customer Growth		
45	To adjust customer growth for adjustments to operating revenues and expenses related to the proposed increase	\$ 44,378	\$ 34,875
	Total Customer Growth for Proposed Increase	<u>\$ 44,378</u>	<u>\$ 34,875</u>

South Carolina Electric & Gas Company
Weighted Cost of Capital
As of March 31, 2008

Description	Capital Structure	Ratio	Regulatory Per Books				As Adjusted				After Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 2,211,488,400	43.73%	\$ 174,263,708	6.21%	2.72%	\$ 10,821,776	\$ 173,124,664	6.21%	2.72%	\$ 10,751,042	\$ 173,124,664	6.21%	2.72%	\$ 10,751,042
Preferred Stock	114,158,800	2.26%	9,006,082	6.42%	0.15%	578,190	8,947,216	6.42%	0.15%	574,411	8,947,216	6.42%	0.15%	574,411
Common Equity	2,731,385,093	54.01%	215,229,428	9.00%	4.85%	19,369,771	213,822,618	9.16%	4.94%	19,595,510	213,822,618	10.25%	5.53%	21,917,017
Totals	\$ 5,057,032,293	100.00%	\$ 398,499,218		7.72%	\$ 30,769,737	\$ 395,894,498		7.81%	\$ 30,920,963	\$ 395,894,498		8.40%	\$ 33,242,470